

FY 2012
City of Surprise, Arizona
Comprehensive Financial Management Policies

Introduction

The City Council's Strategic Plan, goals and objectives provide the foundation for the comprehensive financial management policies. The City's comprehensive financial policies provide the roadmap to achieve financial resiliency and demonstrate the City's commitment to sound financial management practices. Financial policies contribute to increased public confidence and trust as well as provide clear direction to City staff concerning the diligence and stewardship with which public monies are to be managed. Adopted financial policies show our citizens, the credit rating industry, and prospective investors (bond buyers) the City's commitment to financial resiliency. These policies are presented in the following five areas:

1. Operating Management
2. Capital Management
3. Debt Management
4. Minimum Fund Balance
5. Financial Reporting

Operating Management Policies

1. All departments will participate in the responsibility of meeting policy goals and ensuring long-term financial resiliency.
2. The budget shall be considered balanced if revenues plus use of fund balance are equal to or exceed total expenses, by fund. The budget process is intended to weigh all competing requests for City resources, within expected fiscal constraints.
3. Long-range financial plans will be prepared to guide the City and ensure the delivery of needed services due to changes in the economy, service demands, and capital improvements.
4. Regional considerations and intergovernmental relationships will be evaluated to fund both operating services and capital projects.
5. The City Council will consider citizen input and review the operating and capital budget recommendations from an outcome and goals perspective.
6. A diversified revenue system will be developed to protect City services.
7. The City Council will set the amount to be received from primary property taxes annually. The amount is limited to 102% of the prior fiscal year's maximum allowable levy plus new construction and reimbursement for the prior calendar year's tort liability payments.
8. To ensure that the City does not become overly reliant on "growth" revenues for operating needs, the first \$1.25 million received in construction sales tax revenues will be retained in the General Fund and any additional amount will be transferred to the Capital Improvement Program for one-time capital project use (related to Capital Management policy #24).
9. The City currently imposes a 2.52% transient lodging tax. Of the total tax, 1.52% is to be recorded in the Tourism Fund to be used for promoting tourism and 1.0% is to be recorded in the General Fund. Of the 1.52% recorded in the Tourism Fund, 0.52% is restricted by A.R.S. 9-500.06 and 1.0% has been committed by City Council to be used for promoting tourism.

10. Water, Wastewater, and Sanitation user fees and charges will be examined annually to ensure they recover all direct and indirect costs of service and will be approved by the City Council.
11. All user fees (excluding water, wastewater, and sanitation) will be examined periodically to determine the direct and indirect cost of service recovery rate. The acceptable recovery rate and any associated changes to user fees and charges will be approved by the City Council.
12. Grant funding will be considered to leverage City funds and requires City Council approval prior to acceptance. In situations where the timing does not permit City Council approval prior to acceptance, the grant funding will be approved by the City Manager.
13. Cash and investment programs will be maintained in accordance with the State law and the adopted investment policy and will ensure that proper controls and safeguards are maintained. City funds will be managed with an emphasis on safety of principal, liquidity, and financial return on principal, in that order.
14. Employee compensation and benefits will be administered in accordance with the policy given by the City Council. Healthcare costs will be shared between the City and employees and this allocation will be evaluated annually.
15. The City will optimize the efficiency and effectiveness of its services to reduce costs and improve service quality.
16. The City will maintain a methodology for allocating the City's indirect costs to service departments.
17. All transfers between funds must be approved by City Council.
18. All interfund loans must be approved by City Council.
19. Street light improvement districts (SLID's) have a levy limit of \$1.20 per \$100 of assessed value in accordance with A.R.S. 48-616. To the extent that the levy limit has not been exceeded, SLIDs will assess taxes at a rate that will approach an individual ending fund balance target of 10% of its budgeted expenditures for the year.

Capital Management Policies

20. The City shall use an integrated approach to capital planning and financing in preparing a five-year Capital Improvement Plan. Only the first year of the plan will be adopted by the City Council.
21. The Capital Improvement Plan will include funding to support repair and replacement of capital equipment and infrastructure. A high priority should be placed on those items where deferring maintenance will result in greater cost to restore or replace.
22. Proposed capital projects will be prioritized based on the City Council's goals and objectives, the General Plan, and master plans.
23. Future operating, maintenance and replacement costs associated with new capital improvements will be included as a schedule within the annual budget document. Capital project contract awards will include a fiscal impact statement disclosing the expected operating impact of the project and when such cost is expected to occur.
24. The annual amount in excess of \$1.25 million received from the City's construction sales tax will be used to fund the Capital Improvement Plan (related to Operational Policy #8).

25. Effective July 1, 2005, the City implemented a dedicated 1.5% construction sales tax to be used solely for the purposes of paying costs related to new roadways and to refurbish existing transportation corridors.
26. As permitted by State law, the City shall maintain a financial structure to ensure future development pays for itself and is not a burden on existing residents (e.g. "growth pays for growth"). Elements of this financial structure include impact fees, development agreements, Improvement Districts (IDs) and Community Facility Districts (CFDs).
27. Impact fees for infrastructure attributable to new development will be reviewed at least every other year to ensure that fees recover all direct and indirect development-related expenses, as permitted by state law and will be approved by the City Council.

Debt Management Policies

28. The City will seek to maintain and, if possible, improve our current bond rating in order to minimize borrowing costs and preserve access to credit.
29. An analysis showing how a new debt issue combined with current outstanding debt impacts the City's debt capacity and conformance with City debt policies will accompany every proposal.
30. General Obligation debt, which is supported by property tax revenues, will be utilized as authorized by voters. Other types of voter-approved debt (e.g. water and wastewater) may also be utilized when they are supported by dedicated revenue sources (e.g. fees and user charges).
31. Municipal Property Corporation, trust agreements and contractual debt, all of which are non-voter approved, will be utilized only when approved by City Council.
32. Improvement District (ID) and Community Facility District (CFD) bonds shall be permitted only when there is a general City benefit as defined and approved by the City Council.
33. Utility rates will be established to ensure the ratio of revenue to debt service meets bond indenture requirements.

Minimum Fund Balance Policies

34. The minimum fund balance is not intended to be spent. The purpose of the minimum fund balance is to ensure the City has adequate resources to meet its operational needs. If the necessity arises to draw down fund balance below the minimum requirements that have been set, a plan to replenish the minimum fund balance will be presented to the Council for approval.
35. All minimum fund balance requirements will be evaluated annually for long-term adequacy and use requirements.
36. The City has formally adopted a minimum fund balance policy for the following governmental funds: General Fund, Highway User Revenue Fund and the Transit Fund. These funds are referred to as the operating funds for the City. The minimum fund balance is updated annually by calculating an average of budgeted personnel, supplies and services expenses over a two month period. There is no effect on the presentation of fund balance on the face of the financial statements within the comprehensive annual financial report (CAFR). The minimum fund balance policy will be disclosed within the notes of the CAFR.

37. In addition to the minimum fund balance policy established for the governmental funds, the City intends to maintain the following net asset balances for the proprietary funds.
- a. Within the Sanitation, Sewer and Water Funds, net assets are to be maintained at an amount equal to the average budgeted personnel, supplies and services expenses over a two month period. An additional amount will be kept for repair and replacement and will be maintained at a minimum of 2% of all tangible capital assets of the system.
 - b. The Risk Management Fund will maintain net assets at an amount that, together with purchased insurance policies, will adequately indemnify the City. An actuarial evaluation will be performed annually to recommend appropriate funding levels, which will be approved by the City Council.
 - c. The Healthcare Self-Insurance Fund will maintain net assets at a level which, together with purchased insurance policies, will adequately indemnify the City. An actuarial evaluation will be performed annually to recommend appropriate funding levels, which will be reviewed by the Loss Trust Fund Board and approved by the City Council.

Financial Reporting Policies

38. The City's accounting and financial reporting systems will be maintained in conformance with all state and federal laws, generally accepted accounting principles (GAAP) and standards of the Governmental Accounting Standards Board (GASB).
39. Financial systems will maintain internal controls to monitor revenues and expense on an ongoing basis.
40. The City will prepare a Comprehensive Annual Financial Report (CAFR). An annual audit will be performed by an independent public accounting firm. The independent auditor will present and discuss audit findings regarding internal controls and operational issues at a public meeting.

CAFR Fund Balance Reporting

1. The hierarchy from least spendable to most spendable fund balance for governmental funds of the City shall be: nonspendable, restricted, committed, assigned and unassigned. When funds are available from multiple classifications of fund balance to meet the City's obligations, it is the City's policy to charge the least spendable fund balance available.
2. Nonspendable and restricted fund balances are determined solely by the nature of the fund balance itself.
3. Committed fund balance represents amounts that have been constrained to a specific use by the formal action of the City's highest level of decision-making authority, the City Council. A majority vote of the City Council is necessary to establish, modify or rescind a fund balance commitment.
4. The City has elected the following commitments of fund balance to be standardized from year to year.
 - a. A commitment for repair and replacement of general government vehicles and other rolling stock will be maintained based upon lifecycle replacement plans prepared annually. This commitment shall be maintained in the General Capital Projects Fund.
 - b. A commitment of a 1.5% construction sales tax to be used solely for the purposes of paying costs related to new roadways and to refurbish existing transportation corridors, to be maintained in the Transportation Improvement Fund (related to Capital Management policy #25; Ordinance No. 05-13).
 - c. In addition to the 0.52% transient lodging tax restricted by state statute a commitment of a 1.0% transient lodging tax will be used to

promote tourism and be maintained in the Tourism Fund (related to Operating Management policy #9; Ordinance No. 2010-04).

5. In order to be reported as committed fund balance in the CAFR the City Council must approve the commitments prior to June 30th. However, the amount of the commitment may be determined after June 30th.
 6. Amounts that have been constrained by the City's intent to be used for a specific purpose and are neither restricted nor committed are reported as assigned fund balance. The City Council has designated the authority to assign amounts to be used for specific purposes to the Chief Financial Officer (CFO).
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41. The City's CAFR will be submitted to the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting program.
 42. The City's Budget will be submitted to the Government Finance Officers Association (GFOA) Distinguished Budget Presentation program.
 43. A monthly financial report will be presented to and accepted by the City Council.